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ADNOC Drilling

ADNOC DRILLING COMPANY P.J.S.C.

Second Quarter 2023 Earnings

Webcast & Conference Call Transcript

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ADNOC Drilling

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PRESENTATION

Massimiliano Cominelli - *ADNOC Drilling - Vice President, Investor Relations*

Ladies and gentlemen, welcome to the ADNOC Drilling second quarter 2023 earnings webcast and conference call. My name is Massimiliano Cominelli, Vice President of Investor Relations.

Before handing the floor over to the main speakers, I would like to draw your attention to the disclaimer that you find in the second slide, which I encourage you to read carefully.

The text contains important information. We advise caution on the interpretation and limits of historical data and forward-looking statements.

I would like to remind you that this presentation and the recording of this call will be available on our website shortly after the end of the call.

Today's presenters are our Chief Executive Officer, Abdulrahman Al Seiari, our Chief Financial Officer, Esa Ikaheimonen, and our Senior Vice President for Oilfield Services, Emri Zeineldin.

As always, after the presentation we will have a Q&A session where we will be happy to answer your questions.

I will now hand over the call to our CEO, Mr. Abdulrahman, who will lead you through the highlights of the quarter.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Massi and welcome all.

It is my pleasure to be here with you today to discuss our financial results for Q2 2023.

Since our IPO in October 2021, we have constantly delivered strong results, coupled with significant and growing shareholder

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returns and this period is no exception also.

As our company continues to grow and evolve, some things remain fundamental. For the first half of the year our total recordable incident rate was 0.46 against a target of 0.7, which is very good.

Our commitment to upholding the highest standards of HSE across our operations, will always remain a priority number one.

In the first half of 2023, we delivered another strong period of growth for ADNOC Drilling.

This continued success is a testament of our strategy of expanding both our drilling fleet as well as service offering in our oilfield services, while improving our margins through a strong cost performance.

Revenue grew 13 percent year-on-year to $1.44 billion, with an industry-leading EBITDA margin of 47 percent.

We also experienced excellent growth in our net profit which increased 18 percent year-on-year to $446 million.

We are making good progress on our fleet expansion program, and during the first half of the year we announced the acquisition of 2 premium offshore jack-ups and 16 newbuild hybrid land rigs.

The hybrid rigs are a significant element of our decarbonization strategy and our commitment to support ADNOC's target to reduce greenhouse gas intensity by 25 percent by 2030, as well as Net Zero targets.

Just last Sunday we celebrated the sailing out of rig Al Danat, which is a premium, high-spec Jack-Up starting operations in the offshore. The rig was upgraded in Drydocks Dubai to meet our client's expectations in terms of operational requirements.

As more rigs enter the fleet in the second half of the year, we will see some revenue and bottom-line contribution in 2023. However, we will see significantly more impact in 2024 with full benefit to be realized in 2025.

We expect to make more announcements about the fleet, and rig acquisitions, as we continue delivering growth.

Next slide, please.

As the key enabler of ADNOC's Upstream strategy of increasing capacity, we remain fully committed to executing our strategy and delivering value to our clients, shareholders, and the UAE.

As part of our exceptional fleet expansion, which I have already mentioned, we expect to enable an additional eight integrated drilling services rigs in the second half of the year, to support the continued expansion and growth of our Oilfield Services business.

As the UAE marches towards gas self-sufficiency, a major focus for ADNOC Drilling going forward is the opportunity presented by the development of the unconventional. This presents a significant long-term growth opportunity for the company.

We already have three operating rigs in Abu Dhabi with scope for more as we aspire to become a regional leader in this field.

Lastly, we are exploring new revenue opportunities in drilling, and also in complementary services and technology. Both outside and inside of Abu Dhabi.

I will now hand over to Emri to provide more details on the operations side.

Emri Zeineldin - *ADNOC Drilling - Senior Vice President, Oilfield Services*

Thank you, Mr. Abdulrahman. I will now walk you through some of the operational highlights.

Over the second quarter, as our CEO already mentioned, we acquired two jack-ups for $220 million and 6 newbuild hybrid land rigs for $75 million, or approximately $12.5 million apiece. Hybrid rigs support our commitment to be a responsible driller in performing our operations.

Our drilling activity was robust during the second quarter, as we drilled 159 wells. The Offshore segment continued its strong performance, albeit with some increase of drilling duration measured in days, purely driven by the higher complexity of the wells drilled. The Onshore segment maintained its outstanding 42 days of average duration, while also commencing batch drilling.

Our Oilfield Services (OFS) business, as key driver of growth, continues its strong momentum, recording a 13.8 percent improvement in Integrated Drilling Services (IDS) drilling efficiency versus the 2022 benchmark. Moreover, we added new services to our OFS offering, and performed IDS on 40 rigs. The figure may seem static, but we expect to finalize the variation

order for the 8 extra IDS rigs from our Onshore client during the second half.

In addition to our robust operational performance, we were awarded sizeable contracts worth over $2.4 billion during the second quarter. These consisted of a $2 billion offshore jack-up contract award and a $412 million integrated drilling services contract.

Next slide, please.

Let's look in more detail at our segmental operational performance.

In-line with our broader objectives, efficiency remained a core priority this period, as we pushed to reduce our costs and increase our bottom-line performance. Rig availability remained high across our business with Onshore at 94 percent, while both Offshore Jack-up and Island stood at 100 percent.

Activity in the Onshore segment remained strong during the quarter. We completed drilling for the first fully sequestered CO_2 injection well in a carbonate saline aquifer. Also as touched on earlier, we commenced batch-drilling in an onshore unconventional project.

In our Offshore business, we continued to leverage new technologies to optimize our operations. We successfully drilled the longest well for an Offshore field utilizing IDS, an impressive 8½ inch hole section at 5,332 feet with the best 8½ inch rate of penetration. Moreover, we also delivered the world's longest extended reach well to a depth of 51,000 feet.

Looking more closely at the Oilfield Services segment, I am pleased to share that of the 15 benchmarked wells delivered in the second quarter, 8 were delivered ahead of schedule and budget, a testament to our commitment to efficient operations.

Safety is key priority. In the second quarter, we remained LTI and TRIR free across all OFS business segments.

Next slide, please.

Sustainable drilling is at the heart of our business. This slide provides an update on our progress against our ambitious ESG goals.

As you know, health, safety and security are of utmost importance to our leadership. This is why we have adopted the highest standards of HSE. Our TRIR in the first half was at 0.46, well ahead of our target of 0.70, as we continue to record improvements in this area.

In-line with ADNOC's GHG reduction targets, we have been working to reduce our energy intensity. As a result of our ongoing initiatives, we closed the first half with an energy intensity of 27,032 GJ per rig, ahead of our target 27,806 GJ per rig.

As a responsible driller, we remain committed to protecting the local environment. I am pleased to share that, through our best-in-class environmental management system, we recorded zero spill incidents during the semester.

Lastly, the Company is committed to workforce gender diversity and development at all levels of the organization, including the Board, SVPs and VPs.

Next slide, please.

Before handing over to Esa, let's look at our current decarbonization initiatives.

Emission abatement is a critical component of those, and we have adopted several programs to reduce carbon intensity across our business, from our rigs to our camps.

In our base camps, we have projects ongoing to implement grid connectivity and have plans for two camps to be connected by the fourth quarter of this year.

We are also evaluating offers to replace diesel engines with solar systems in the mobile camps.

On our fleet, we have commissioned new hybrid land rigs, while also implementing a Battery Energy Storage System.

We are actively working on utilizing new technologies to optimize the way we work, leveraging digital capabilities.

Finally, as a significant consumer of diesel, we are working on improving our combustion efficiency.

And with that, I'll hand it over to Esa to walk you through the financials.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thank you, Emri.

As usual I'll start with an overview for the period. We had another strong quarter with revenue up 8 percent year-on-year to $724 million. That growth was driven by the Offshore Jack-up and OFS segments which grew 33 percent and 47 percent respectively. Quarter-on-quarter, revenue increased marginally by 1 percent ahead of delivery of new rigs later this year.

The strong top-line performance translated into EBITDA of $344 million, growing 15 percent year-on-year. Our cost management initiatives continue to deliver results, evidenced by industry leading EBITDA margin of 48 percent for the second quarter, a 3-percentage points margin expansion year-on-year. Net profit grew 12 percent year-on-year and 4 percent from Q1 to $228 million.

Let me step out from our reported numbers for a moment. When we compare our performance this year against corresponding period last year, it is important to know that that Q2 last year benefited from some delayed recognition of revenue and earnings, particularly relating to a catch up in fuel cost escalation. If we normalize for such items, the underlying increase in Q2 revenue was 15 percent, and as high as 27 percent for EBITDA and 30 percent for net income when we compare with the same period last year.

Now back to reported numbers. Cash flow from operations came in at $395 million, up 93 percent from the prior year, as we benefited from increased collections from related parties reducing our working capital.

CapEx in the second quarter of 2023 was $181 million, which was lower than expected. We are currently getting some cash flow benefits from later payment for our rig acquisitions and an overall highly efficient and well-managed rig acquisition campaign. Our CapEx is still expected to ramp up significantly during the latter part of the year.

We maintained a healthy balance sheet with our Net Debt increasing to about $1.2 billion at the end of June, leading to a moderate increase in our leverage from 0.8 to 0.9 times EBITDA.

Now next slide, please.

Let's take a closer look at our segments, starting with revenue.

Onshore revenue decreased 10 percent year-on-year as last year was positively impacted by the timing of some revenue recognition and the recovery of higher fuel costs, as I already mentioned earlier. Sequentially, revenue declined by 3 percent as the positive impacts of two additional days in the quarter and the new rig integrated into operations were slightly more than offset by lower reimbursement of diesel cost from our clients due to cheaper diesel prices.

The Offshore Jack-up segment had a tremendous quarter, delivering year-on-year revenue growth of 33 percent to $192 million. Growth was driven by the higher activity level due to the full period contribution of five new jack-up rigs that went into operation last year. Sequentially, revenue was up 4 percent as we benefitted from two additional operating days in the quarter and less maintenance activity. There is a lot more to come from the Offshore segment later this year and next, so exciting times ahead.

Offshore Island revenue increased 2 percent year-on-year to $52 million, as a result of increased activity related to the Hail and Ghasha field. Sequentially, revenue was equally also up 2 percent, benefiting from the two additional operating days in the second quarter.

Oilfield Services again demonstrated why it is one of our strategic growth priorities and delivered a strong top line performance, with second quarter revenue up an impressive 47 percent year-on-year from $91 million to $134 million. This was driven by increased activity levels across the entire portfolio as the number of IDS rigs increased from 36 to 40 rigs in the period. Sequentially, revenue increased by 6 percent, supported primarily by growth in our Tubular Running and Cementing Service lines.

Now, let's see what that revenue performance means for EBITDA in these same segments.

Over to next slide, please.

Starting again with Onshore, EBITDA for the quarter decreased 16 percent year-on-year to $158 million primarily due to the decrease in reported revenue, already covered earlier. Sequentially, EBITDA decreased by 9 percent mainly due to lower fuel reimbursement revenue, also covered earlier.

In the Offshore Jack-up segment, EBITDA was up 91 percent year-on-year and 20 percent sequentially to $126 million. The growth was driven by higher revenue from new rigs and less maintenance activity. The combination resulted in a significant improvement in EBITDA margin leading to a best-in-class 66 percent for the second quarter of 2023.

The Offshore Island segment delivered 10 percent year-on-year EBITDA growth to $32 million leading to margin improvement from 57 percent to 62 percent in the current period. The improvement was supported by a number of cost efficiency measures which we implemented during the quarter including price negotiations on consumables and spare parts. EBITDA remained flat quarter-on-quarter as operating expenses increased in-line with the higher number of operating days.

Lastly, Oilfield Services yet again delivered stellar year-on-year EBITDA growth of 65 percent to $28 million, reflecting increased activity volumes across all segments and a more favorable product mix. Sequentially, EBITDA increased by 22 percent, driven by higher revenue.

On the next slide, we will look at how these segmental earnings convert into ADNOC Drilling cash flow.

Next slide, please.

Our Cash Flow from Operations increased by 93 percent year-on-year, to just under $400 million.

This was driven by a favorable change in net working capital in the second quarter this year versus the same period of last year, driven by reduction in related party balances with the increase in profit added on top.

On the balance sheet side, in Q2 we paid the final 2022 dividend of $341 million. As a result of our cash flow over the quarter more than offset by the payment of the dividend, our net debt increased slightly to about $1.2 billion. Our end of June cash balance still stood at healthy $316 million with liquidity totaling around $1.6 billion.

As a reminder, this total liquidity includes our unutilized syndicated term loan and our revolving credit facilities in addition to the cash on balance sheet.

Next slide, please.

Our CapEx for the second quarter was $181 million, which was slightly lower than expected, due to phasing of the payment for rig acquisitions, but also importantly due a generally efficient and financially optimized acquisition campaign, during which we have managed to achieve considerably lower acquisition prices for our rigs than originally anticipated.

CapEx will ramp-up in the second half of the year with more payments for rig acquisitions, hence we confirm our full year guidance range of $1.3 billion to $1.75 billion. For the anticipated phasing and achieved savings, we currently see a trend which will more likely lead us closer to the bottom end of our guidance range than towards the top end of it.

Further to CapEx increasing towards the end of the year, we also continue to expect CapEx to remain elevated through the first half of 2024, given the payment profile of our rig acquisitions to enable delivery of ADNOC's accelerated production capacity target. For this reason, we still expect to invest about $2.0 - $2.5 billion cumulative between this year and next year.

As mentioned previously, our working capital slightly increased year-on-year by 3 percent to $391 million simply due to increased activity levels. However, the same decreased by 12 percent sequentially, as a result of increased collections. This resulted also in a decrease in net working capital as a percentage of revenue to 13 percent at the end of the second quarter from 15 percent at the end of the first quarter. This positive trend leaves us confident on our target of bringing working capital to the range of 10 percent to 11 percent of annualized revenue already during this year, ahead of our mid-term guidance.

Next slide, please.

As anticipated during our previous results call, our second quarter results were broadly in-line, actually slightly better, than the first quarter.

As you can see from the chart, which is for illustrative purposes only, we expect a material ramp-up in revenue and EBITDA in the second half of the year, and this growth will be biased towards the fourth quarter. This will obviously establish a new starting point for 2024.

This forecast trend aligns with the expected phasing of rigs entering the fleet and contributing to our financial performance towards the end of the year. This has also been explained in the earlier announcements regarding newly acquired land rigs and jack-ups.

In the short-term, we are expecting the third quarter to be slightly stronger than the second quarter in terms of both revenue and EBITDA, assuming roughly constant trend in diesel price and related reimbursements.

We are confident in reiterating our full year 2023 guidance of revenue between $3.0 and $3.2 billion. Of course, the final number within the range depends on the pricing of diesel as well as the exact timing of the rigs joining the fleet in Q4.

EBITDA and net income targets are confirmed as well, both benefitting from accelerated cost efficiencies.

Next slide, please.

On this slide, you can see our FY2023 and our medium-term guidance, which remains unchanged.

On the revenue segmental breakdown, we see onshore with some downside pressure towards the bottom end of the range – due to phasing and reimbursements – offset by other segments trending higher.

We also currently forecast further improving cost performance that will benefit our company and our shareholders both short and longer term.

Our guidance underpins our progressive dividend policy which entails at least a 5 percent growth per annum over the next four years.

Regarding the interim dividend of 2023, we expect it to be announced in due course and distributed by the end of October.

With that back to you Mr. Abdulrahman.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Esa.

To recap, we have delivered an excellent set of results this reporting period. Fleet expansion, the growth of our oilfield services offering and strong cost performance across the organization has led to industry-leading margins.

Our growth is underscored by our commitment to enabling ADNOC's accelerated production capacity growth through safe, efficient, and sustainable operations and by delivering on our ESG agenda.

I would like to thank the ADNOC Drilling team for this strong performance that has set us up for another exceptional year.

Thank you for joining us today. I'll now hand over to the moderator to open the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator -

Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you choose to withdraw the question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. And our first question today goes to Ricardo Rezende of Morgan Stanley. Ricardo, please go ahead. Your line is open.

Ricardo Rezende - *Morgan Stanley*

Hi, all, thanks for taking my question. A couple of questions on my side. The first one was when you mentioned the regional -- potential regional expansion, would you have any preference towards onshore or offshore or more looking at the geography than in specific segments? And then the second question I think is more for Esa. When we look at the CapEx trajectory for the second half of this year, we expect something similar to what we should see for revenues and EBITDA, or will CapEx be more equally divided between the third quarter and fourth quarter. Thank you.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

The second one is quite easy. Yes, thanks, Ricardo, good questions. CapEx will be biased towards the end of the year. So, very certainly, you know, I can assure you show you that Q4 is going to be the that the biggest spending quarter on with regards to CapEx. So, it looks rather similar to what we illustrate for revenue and EBITDA. Probably, you will see more increase

in Q3, though, than what you see in the revenue, EBITDA illustration, but it's going to be biased towards fourth quarter.

And as we've said, already, given a lot of good things, actually, that happened with regards to our management of CapEx, the program, the acquisitions, all that, we have managed to find ways of making it more affordable to ourselves, as well as eventually our clients. And as a result, we will actually spend a little bit less CapEx than we originally anticipated, which is a good thing, of course. And as a result of all of that positive evolution, we expect that our CapEx this year is going to be towards the bottom end of the CapEx range, as we've already said during our prepared remarks.

Want me to continue with the regional?

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Go ahead, go ahead. Continue, please.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Okay, well, I'll just lead the conversation about the regional expansion as well. We think about ourselves, we are actually a drilling company, or oil and gas service company that operates in offshore, onshore drilling areas, as well as in services and technology, increasingly, so. So, I think our regional expansion strategy is to some extent opportunistic, as it always is, but at the same time, we're focused on both land drilling as well as offshore. In equal measure, really, but very importantly, also, not only for the regional expansion, but also for Abu Dhabi business, we are increasingly looking into more integrated plays, including services, technology, manufacturing capabilities and other things in order to further integrate, because we're starting to like this integration. And the OFS success, I think, is a great example of what we can actually do in that area.

Ricardo Rezende - *Morgan Stanley*

That was quite clear. Thank you.

Operator -

Thank you. And the next question, go to Karen Kostanian of Bank of America Merrill Lynch. Karen, please go ahead. Your line is open.

Karen Kostanian - *Bank of America Merrill Lynch*

Yes, gentlemen, thank you so much for the presentation. I just have one question. All these oil field services, and rig cost inflation and unavailability of rigs do you anticipate any difficulties at this stage fulfilling your long-term plan? And if not, what measures are you taking to stem, you know, that oilfield inflation? I understand that ultimately, it doesn't affect you because you get your cost back, but whether you feel the shortage in the rig market right now? Thank you.

Massimiliano Cominelli - *ADNOC Drilling - Vice President, Investor Relations*

Karen, can you please repeat the second part of your question, because the line was not very clear.

Karen Kostanian - *Bank of America Merrill Lynch*

Yeah, apologies, I'm calling from outside. Yeah. The second part, it's just one question whether you anticipate the rig shortage and whether that could be affecting your plans or you're planning very well ahead. And you know whether you do anticipate significant cost pressures and cost inflation going forward.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Oh, thank you, Karen, for the question. I think we'll answer a number of us into this. Now as a shortage of the rigs, on the offshore, probably yes, because there is extensive utilization happening worldwide. They probably is above 95 percent. And Esa can add more into this information. Onshore, relatively, I would say it is not something that will find difficulty. But definitely I mean, for us, we'll be able to identify part of the growth and actually we have awarded all what is required by our clients. Now, probably there is one or two more to come in the offshore side, which we are scouting now, and we have identified a few, but it's under assessment evaluations. Now, if you would like, Esa, to add?

Esa Ikaheimonen – *ADNOC Drilling – Chief Financial Officer*

No, there's not that much to add to that actually, I think there's two different stories there. One story is the onshore story. Not a super tight market in terms of supply and access to supply and furthermore, actually a business where we have found ways

of benefiting from new build opportunities. Offshore is quite different. It's tighter, like the CEO said. But at the same time, it's important to note that we're actually fully supplied or at least very close to fully supplied for rigs in both offshore and onshore. So, we don't really have much of an exposure to that, and, you know, fortunate or foresightful, we've been active in the marketplace at the right time. Basically, securing access to offshore rigs when the market was distressed and the pricing was low, and subsequently benefiting from exceptionally affordable new build pricing on the land rig market. So, those are the sort of elements that I referred to earlier when I said that our CapEx management has been very successful in terms of acquiring rigs at the right time and at the right price, but also with, you know, market leading specifications.

Karen Kostanian – *Bank of America Merrill Lynch*

Thank you.

Operator –

Thank you. The next question goes to Waleed Jimma of Goldman Sachs. Waleed, please go ahead. Your line is open.

Waleed Jimma – *Goldman Sachs*

Hi, good morning, and thank you for the presentation. This is Walid Jimma from Goldman Sachs asking a couple of questions on behalf of Faisal Azmeh. The first question is on the unconventional front, could you possibly quantify the opportunity and potential market size in the UAE just interested in knowing what the impact could be on ADNOC Drilling? And just like drawing some comparisons with the recent centers we saw in Saudi last week.

As for the second question, on your potential expansion plans into other GCC countries. That's something that the company is still interested in, if you could provide us with an update on that would be good.

Abdulrahman Al Seiari – *ADNOC Drilling – Chief Executive Officer*

Thank you, Waleed. I think the first part of the question was on the unconventionals. And now definitely something that we're working on with our clients and something progressing very well, I think part of the presentation, Emri, slightly updated on that also, on the progress today, at least we're having three rigs in operation in that area, and potential to grow up more to that. Definitely we're looking at to address a differently that's required to provide the total solution, turnkey kind of concepts, but that's something is developing as we go.

I think on the regional growth is also something we've been working for the last couple of years, mainly in the pre-qualification process as it takes time to pre-qualify. So, that's something that is going on. And basically, I mean, there is certain progress in different areas, whether it is KSA or Kuwait, or Oman.

Anybody would like to add more?

Esa Ikaheimonen – *ADNOC Drilling – Chief Financial Officer*

Yeah, I'd say the unconventional business development is very much part of the ongoing business planning exercise for the upcoming five years. It's obviously a significant potential further growth driver for our company, as well as for the ADNOC group, obviously, and therefore a very strategic business planning exercise ongoing. So, I would assume that when we're providing guidance for 2024, properly updated midterm guidance, we will be a bit more granular about the unconventional expectations as well. But there's a lot of activity in that area. We're kind of developing that towards a dedicated business segment. We're looking at lean operating models in terms of how to run that business as affordably as possible. And very importantly, of course, the integration of services into that because the nature of the business, the nature of the activity is quite different. So, as a result as business is very, very critical to that in terms of last making money at longer term.

Waleed Jimma – *Goldman Sachs*

Thank you.

Operator –

Thank you. And the next question is to Oliver Connor of Citi Group. Oliver, please go ahead. Your line is open.

Oliver Connor - *Citi Group*

Thanks for taking the question. And it was another one on the unconventional side. Obviously, you mentioned that, you know, sort of next year, you might find a little bit more guidance. But I was just curious if, at this stage, you had a reasonable

understanding of, sort of, the composition of some of the wells that you are drilling in terms of productivity, you know, oil, gas split, et cetera. I'd just be curious if at this stage, you had enough to sort of take a view on that, or whether that's something to guide on next year? Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Oliver. I think -- probably, I think this can be to go more in depth into this. Now, definitely, we're learning as we go. At least I can tell you today, when we're doing the first part under development concept, we are definitely improving the duration of the well by almost 25 percent. And the consumption of certain fluids improvement by almost 35 percent, for sure, we're expecting that will grow more and more as we go into this program. But definitely, I mean, there is improvement is going to be expected as we progress in the development phase. The more we will do development phases, the more improvements we are going to expect whether it is an either an oil or gas wells.

I hope that answers, Oliver.

Oliver Connor - *Citi Group*

Yes, thank you. That's very helpful.

Guillaume Delaby - *Société Générale*

Yes. Good morning. One question I ask very often that which is I understand correctly as not been mentioned today? Where are you today with your international ambitions? Or is there so much work today in Abu Dhabi, that means that it probably makes more sense to devote management time to Abu Dhabi business versus international. So, maybe if you can maybe update a little bit about your international ambitions? Thank you.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, it's a good challenge, Guillaume, one that we discuss internally a lot. And our answer to that is that we obviously would like to do as much of both as possible. Now, then you have to ask yourself where the bias is? How do you allocate your resources? Where is it that you spend your time. And I can assure you, Guillaume, that if I look around this table, for instance, we've got the CEO and the CFO and the SVP and a couple of IR guys here. I -- It's fair to say that more than 90 percent of our time is actually focused on Abu Dhabi, and our domestic business. So, it's not that we are spreading ourselves really thinly and forgetting the core of the value creation story that we've got here. And the opportunity was got here in Abu Dhabi. And that's why we talk about as much unconventional as we talk about regional expansion, if not more, we talk a lot more about doubling up OFS business than we talk about, you know, Saudi, or Qatar, or any other international markets.

So, I think we're aligned with what I think your challenge sort of suggests. But at the same time, we've got some real capabilities in the company, not only financial, but also operational, commercial, risk management capabilities, you know, sub c -- sub surface, topsides. And this integration that we've learned over the last few years in terms of bringing services into the drilling offering, is actually really exportable. And as a result of that, we will be probably not world class custodians of what has been thrusted upon us, unless we looked at, at least seriously looked at opportunities outside and opportunities to expand and create more value than we can create here in Abu Dhabi, but rest assured the absolute focus, first prize, second prize is in Abu Dhabi.

Guillaume Delaby - *Société Générale*

No, it makes a lot of sense. It makes a lot of sense. Thank you very much. I turn it over.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thank you.

Neetika Gupta - *Ubhar Capital*

Yeah, hi, good morning. Can you hear me?

Massimiliano Cominelli - *ADNOC Drilling - Investor Relations*

Yes, Neetika, we can hear you. Go ahead, please.

Neetika Gupta - *Ubhar Capital*

Okay. Thank you. So, I needed a clarification on the CapEx. So, I note the comments that the CapEx will come in at the

lower end of the guidance for 2023. So, what I want to understand is that is it because of some better pricing terms for your new rig acquisition? Or is it just a phasing from '23 to '24? And the second part of this question is, if it's just the phasing, should we also expect a similar sort of, you know, phasing on the revenue side? So, should we expect the revenue also should be coming in the lower end of the guidance range for '23?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, that's a very thoughtful question. It is thoughtful to think about CapEx and revenue in a combination, rather than see them separate, there is a bit of a segregation between the two. So, the reason why I call the CapEx evolution quite positive and beneficial to the company is that it doesn't actually -- it doesn't lead to revenue deceleration. So, in a nutshell, the CapEx story is a story of two things. Perhaps three, actually, one is absolute reductions in expected CapEx, a very good story, by the way, we've been talking for more detail about how much CapEx we believe we are saving, given the achievements in the rigs acquisition program.

Number two has to do with phasing, which is largely because of some more tail end loaded payment profiles. So, milestones later, as a result of negotiations than will be anticipated, initially. And then there's a very small element of real phasing on the onshore side, which will have a moderate impact on revenue during the second half of the year, but only a very moderate one. And that's because of the fact that we decided, rightfully and certainly in our opinion, we decided to build new rigs in order to get access to exactly the sort of specs and quality we wanted, hybrid capabilities, all these sorts of things. But building new will take just a little bit longer than acquiring existing units. And as a result of that, we do have something that we flagged already in our prepared presentation and our other conversations we will have. And we will look at onshore revenue, particularly towards the bottom end of the guidance range. But I should add that the other segments are expected to offset for that revenue phasing.

But it's generally speaking, a really good story. And it's quite largely a story where CapEx and revenue are decoupled and the delays in our CapEx spending are not having a knock-on effect, certainly not a material knock-on effect on our revenue, which is a really good combination. And then finally, in terms of just providing confidence in our guidance, we're also spending less money. So, our cost management efforts are actually more successful than what we anticipated. And what is underpinning our EBITDA guidance, for instance, as a result of that there's this further offset coming from the cost side. So, altogether, I think, at least in my ears, sounds like a pretty positive story. But that's for you to judge honestly.

Neetika Gupta - *Ubhar Capital*

Thank you, quite clear. Thank you so much.

Operator -

Thank you. And the next question goes to you from Alex Comer of JP Morgan. Alex, please go ahead. Your line is open.

Alex Comer - *J.P. Morgan*

Hi, thanks for taking my question. Just a quick one on the CO2 well that you drilled. I was just wondering, firstly, how much CO2 will that well take going forward? And also, I note you drilled this in a complex saline aquifer. You know, looking forward, do you think you'll be drilling most of your carbon sequestration wells in that sort of geology or will it be sort of depleted oil fields? So, just a view on that, please?

Abdulrahman Abdullah Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you, Alex. I think that is a very interesting question, actually. The CO2 injection program has been working for a while in Abu Dhabi in different fields. Now this one is more specifically, I mean, I think it's more delivered by the client, I mean, because they define the aquifer reservoir that will be injecting into. So, from that perspective, I know from experience, wells that we have for CO2, they still are operational, almost for the last good time. I mean, five, six years. So, not sure, specifically on this well that we have done what will be the detailed program, but those are the programs that are already started execution by our clients to inject CO2 into different reservoir or aquifers to manage CO2 emissions.

So, I hope that's a good enough answer, because the answer really will be with the operators to provide more details into this. Anybody would like to add? Yeah, Alex, I hope that gives some color into your question.

Alex Comer - *J.P. Morgan*

Yeah, look, look, look. Thanks. So, you don't, for instance, have an amount of CO2 that's currently being injected into what

-- into that well, or into the total wells that you've drilled, for instance? Or is that for the operator to sort of really provide the info?

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Yeah, for sure. I mean, yeah, yeah, operator will provide more details there.

Alex Comer - *J.P. Morgan*

All right. Thanks, guys.

Operator -

Thank you. And the next question goes to Nour Eldin of Arqaam Capital. Nour, please go ahead. Your line is open.

Nour Eldin - *Arqaam Capital*

Yes, thank you for the call and the opportunity to ask questions. A couple of questions for me if you can take it one by one. So, we've seen a drop in the EBITDA margin on the onshore segments. As mentioned, it was impacted by lower revenues, basically from less recovery of higher fuel costs. But should we expect this to sustain going forward? And if lower cost actually should result in higher EBITDA margin?

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Nour, do you want to go question by question, or we take all the questions, and we'll answer one by one?

Nour Eldin - *Arqaam Capital*

Yes, I think -- yeah, I think we can do it one by one if that's easier.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Okay, no problem.

Esa, if you can update into this.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yes, so the drop in revenue and earnings, particularly on a year-on-year basis is effectively all because of non-recurring items in Q2 '22. On a more like-for-like basis, we would have been flat, if not slightly better. The thing is that the margin Q2 last year was exceptionally high as this nonrecurring items were effectively for pure earnings. So, then calculation shows that it had 75 percent margin associated to it. As a result of that, we are -- obviously we need to work hard, and we are working hard to achieve similar levels of margins in the onshore business going forward, where we believe it's possible.

Nour Eldin - *Arqaam Capital*

Yeah, thank you. And if you can shed some light on the quarterly progression of revenue for Q3 versus Q4. It was previously expected to see a meaningful increase in Q3. Is this now pushed into Q4 and any reason that you can shed behind it, please?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, okay. This is the danger of illustrative presentations, I think. So, we tried to emphasize that our quarterly expectations a quarter ago were illustrative. And I think you might be comparing our two presentations where the illustrations don't necessarily match. And as a result of that, to draw a conclusion that there's a change in that place, and there really isn't. So, I think it's pretty consistent, we will see Q3 being slightly better than Q2, and we will see Q4 being materially better. And that's simply because of the alignment of our revenue and earnings with the rig startup program. So, it's an interesting catch, I think it's probably a slightly translation issue, actually, from one presentation to another. Unless you tell me otherwise. So, pretty well consistent.

Nour Eldin - *Arqaam Capital*

Yeah, thank you. And on SG&A, we've seen some savings in Q2, if you can explain the reasons behind it, and if it's sustainable from here.

ADNOC Drilling

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

That was about G&A, was it?

Nour Eldin - *Arqaam Capital*

Correct.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, so our cost management program is in a really good shape, actually. So, we've been driving cost management and efficiency improvements for the best part of the last 18 months. And that is really bearing fruit. So, we keep finding better ways of doing things, we keep challenging ourselves for the way we do maintenance, we keep challenging ourselves, the way we do rig moves, we obviously are implementing shared services in terms of driving overheads further down. So, there's a lot there. And, you know, we've basically taken an approach that we don't let a single stone unturned. As a result of that we see cost improvements coming through already in our reporting, thanks for noting that. We'll see more of that during the second half of the year, because these savings will just continue to add to our bottom line. And as I said earlier, we're working on our business plan for 2024 to 2025. And that's likely to include sort of further plans and improvements in terms of our cost structure.

All of this in the context of our midterm guidance to achieve 50 percent EBITDA margin. Now, from 47 percent to 50 percent doesn't sound like a quantum leap but it actually is quite a lot and requires a lot of very systematic work. And that work is ongoing. So, you should expect to see us continuously improving our cost efficiency. And you should expect to see ourselves moving towards the 50 percent EBITDA margin, irrespective of the fact that Emri is growing his OFS business, which is structurally lower margin. And as a result of that, obviously, take -- makes the 50 percent blended EBITDA margin challenge, even, you know, even more challenging. But that's kind of the story. And it's a very encouraging story as well, and the entire organization is well engaged on that exercise. And I should say forcefully driven by our CEO.

Nour Eldin - *Arqaam Capital*

Amazing, thank you.

And my last question on the -- is there any update on the treatment of federal and corporate tax on the company?

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Yeah, I'm happy to take that one as well. Apologies for talking all the time. The tax situation is still a work in progress with the authorities. Authorities are still considering the level of corporate income tax that should be applicable to ADNOC Drilling. And we are anxiously waiting for further guidance from the federal authorities regarding that point. As we've said earlier, there's a couple of key issues here. One is the establishment of the tax rate and some details associated to it, but it really is the tax rate, but it's the first you know, sort of first cab off the rank. And thereafter, what is important is the implementation of our existing commercial agreements with our clients because we do have certain protection against taxes and levies in our commercial agreement. And those discussions, sort of in anticipation for the tax rate to be applied, have started between ourselves and our clients and that's really the truth from abroad. One is we will get what we will get from the federal authorities, and two is the commercial discussions, which will determine the way this is going to be implemented so that our company will be kept whole as per our commercial agreements with our clients.

Nour Eldin - *Arqaam Capital*

Very clear. That's it for me. Thank you very much.

Esa Ikaheimonen - *ADNOC Drilling - Chief Financial Officer*

Thank you.

Operator -

Thank you. And our final question goes to Aakarsh Tomar of SICO. Aakarsh, please go ahead. Your line is open.

Aakarsh Tomar - *SICO*

Thank you management for the call. And congratulations on the results. My first question is on your rented rigs. So, I see that has moved up from five in the first quarter to seven. So, can you give us a breakup of how many of these are onshore

and how many are offshore? Secondly, how are the margins on these rented rigs? And third, what is your strategy going forward? Do you want to reduce them? Or will we be seeing more rented rigs coming into the picture? Thank you.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Okay, thank you, Aakarsh, for the question for the question, I think on the rental rigs, I mean, the only the only thing what is happening now and then today, the offshore we have reduced the rental rigs, as we are getting our rigs into the plan and getting integrated. Now, again, the end of the day depends on our client's demand. And then based on different programs. On the land, yes, we picked up the few land rigs, mainly to do the bridge kind of thing, the gap filling until we get our own rigs into the system. So, that's something which we've been working on to expedite our rigs versus the rental. But today, as we talk, yes, the land rigs we have almost three started operations; there is another four to go. All of them are in Abu Dhabi just getting started I mean through the process of inspections, what have you, and hopefully they will start. But we have very clear plans, I mean when those rigs will be out of our system and our rigs coming in. So, in future, again, if we have a clear plan, definitely we will have our own rigs. But if there is a small hike for a short period for a year or something, no, definitely that would be our rental options. But today as we talk, I think we have very clear plans, that according to that, I mean we're buying our own rigs and just small gaps that are being filled with rentals.

So, I hope that answers, Aakarsh, the question. And if anybody would like to add. Aakarsh?

Aakarsh Tomar - *SICO*

Yeah, thank you very much.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thanks.

Operator -

Thank you. We have no further questions. I'll now hand back to Mr. Abdulrahman Al Seiari, Chief Executive Officer, for any closing comments.

Abdulrahman Al Seiari - *ADNOC Drilling - Chief Executive Officer*

Thank you very much, I think appreciate the very, very energetic session. Good questions, I think definitely I mean, all those different questions will also you know, to some extent will translate into some actions that we will be doing, hopefully, to see a better quarter inshallah in Q3. Hopefully driving towards year-end expectations as we plan.

Thank you very much and appreciate all who have been attending this call. Thank you very much. Thank you, operator, for the arrangements also.